

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

RATE APPLICATION OF WESTERN KENTUCKY)	
GAS COMPANY)	CASE NO. 95-010

O R D E R

IT IS ORDERED that Western Kentucky Gas Company ("Western") shall file the original and 12 copies of the following information with the Commission no later than May 15, 1995, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Refer to Western's response to Item 39 of the Commission's March 23, 1995 Order.

a. Explain the nature of the duplicate facilities adjustment including the origin of the duplication and whether

recovery of this cost has been approved by this Commission or any Commission under which Western or Atmos is regulated.

b. Why should the duplicate facilities adjustment be used to offset the acquisition adjustment?

2. Refer to Western's response to Item 46 of the Commission's March 23, 1995 Order. To what extent have such costs been recorded in "above the line" accounts? Be specific as to the amounts and accounts whenever possible.

3. Refer to Thomas A. Petersen's testimony, page 7.

a. When did Western sell the equipment used in the production of manufactured gas?

b. Have all of the associated assets been removed from Western's proposed rate base? If not, provide the net book value of the associated assets that remained on Western's books at test-year end.

4. Refer to Workpaper 4-2 of the application. Explain why Western has proposed to adjust benefits expense based upon the total pro forma payroll increase instead of the proposed expense portion of the total pro forma payroll increase.

5. Refer to the Summary of Expenses table included in the 1992 Audit Report of the American Gas Association ("AGA") included in Western's response to Item 48 of the Commission's March 23, 1995 Order. Has Western proposed to exclude any portion of its AGA dues to recognize that AGA participates in institutional, promotional and political activities for which recovery is specifically

prohibited under 807 KAR 5:016, Section 4? If yes, state the amount excluded. If no, has no amount been excluded?

6. Refer to Western's response to Item 48 of the Commission's March 23, 1995 Order. Describe the nature of the marketing services referenced in the Summary of Expenses table of the 1992 Audit Report of the AGA.

7. Refer to Western's response to Item 49 of the Commission's March 23, 1995 Order and to the breakdown of outside services by vendor in the Company's Form 2 on file with the Commission. Explain why charges to account no. 923, Outside Services Employed, increased 45 percent from calendar year end 1992 to calendar year end 1994.

8. Refer to Western's response to Item 55 of the Commission's March 23, 1995 Order. Provide the following:

a. A schedule showing the amount of any payroll bonuses allocated to Western during the test year and the 3 years preceding the test year.

b. The capitalization rate applied to the test-year bonuses.

9. Refer to Western's response to Item 40 of the Commission's February 9, 1995 Order. For each corporate officer listed, provide the percentage of total earnings representing bonus payments. Reconcile the percentages so derived with the Bonus Plan included in Western's response to Item 55 of the Commission's March 23, 1995 Order.

10. Did Western remove the bonuses given to employees during the test year in arriving at its pro forma payroll and related payroll tax expense? If not, why not?

11. If the company's performance leads management to believe employees deserve special recognition, why is this recognition limited to corporate officers?

12. What impact has the Bowling Green incident, referenced in Footnote 2 of Western's response to Item 222 of the Attorney General's ("AG") Corrected Request for Information filed on March 24, 1995, had on the level of outside services incurred or allocated by or to Western?

13. Refer to Western's response to Item 63 of the Commission's March 23, 1995 Order.

a. Reconcile the Construction Work in Progress ("CWIP") balance provided in this response with the balance given on Schedule 7 of the application.

b. Trace the CWIP balances listed in the first schedule with the CWIP balances listed on the schedule entitled "AFUDC Treated Jobs Booked in 1994."

c. Describe the criteria Western uses to determine which jobs are available for Accumulated Funds Used During Construction ("AFUDC") treatment.

14. Refer to Schedule 7 of the application. Identify the total amount included in test period CWIP of \$1,931,676 that is available for AFUDC treatment.

15. If AFUDC is not included in operating revenues, explain why CWIP should be given rate base recognition.

16. Refer to the Statement of Income provided in Item 38 of the application.

a. Provide a breakdown of the test-year end Other Income into amounts allocated from the general office, amounts reflecting AFUDC and all other amounts.

b. Explain why Western is removing the total amount recorded as Other Income from the proposed Statement of Income.

c. State whether AFUDC has been included in the operating revenues that Western is using as a basis for its revenue requirements.

d. State whether Western has included Other Income in the computation of its income tax expense. If not, why not? Recalculate income taxes to include taxable Other Income.

17. Refer to Schedule 1, pages 2 and 3 of 3, of Western's response to Item 26 of the Commission's February 9, 1995 Order. Explain the nature and duration of the \$8,085.89 monthly amortization charges. Include with this response an amortization schedule, and explain the purpose of the legal services being amortized and why this charge should be recovered from Western's ratepayers.

18. Refer to Western's response to Item 151(a) of the Attorney General's ("AG") Corrected Request for Information filed with the Commission on March 24, 1995. Explain why each of the following expenses should be included for rate-making purposes.

- a. Page 4, Golf Refreshments and Entertainment, \$400.00.
- b. Page 5, Entertainment, \$200.00.
- c. Page 11, NGV Reporter, \$750.00.
- d. Page 34, "The Ultimate Resource Guide," \$160.00.
- e. Page 50, Electric Heat Pumps - How Good Are They?, \$209.80.
- f. Page 52, Registration and Golf Fees for AGA Executive Conference, \$880.00.
- g. Page 57 & 58, Various Charges, \$1,016.84.
- h. Page 69, Co-Sponsorship fee for Wal-Mart Year, \$1,000.00.
- i. Page 70, Various Charges, \$1093.80.
- j. Page 74, Various Charges, 352.50.
- k. Page 77 & 78, NGV Reporter, \$168.00 and \$1,000.00.
- l. Page 81, If We're Not Your Idea of Typical Revolutionaries, Wait until You See What We've Done with the Heat Pump, \$1,600.00.
- m. Page 100, Hotel reservations for employees and spouses, \$852.00.
- n. Pages 105, Corporate Telelink, \$5895.00.
- o. Page 127, 1994 SGA Annual Golf scramble, \$1,125.00.
- p. Page 168, SGA Executive Management Conference, employee and spouse, \$970.00.

19. Is the company reimbursed for any costs incurred for committee meetings? If yes, where are the reimbursements recorded and how much did they total for the test year?

20. Refer to Western's response to Item 157 of the AG's Corrected Request for Information filed with the Commission on March 24, 1995. Explain why each of the internal expenses should be included for rate-making purposes.

21. Refer to Western's response to Item 190 of the AG's March 24, 1995 Corrected Request for Information. Explain why the charges for club memberships and other expenses should be included for ratemaking purposes.

22. For each year 1991, 1992, 1993 and 1994 (when available) calculate Western's tax expense on a stand alone basis. Compare each year's expense so calculated with the tax expense allocated by the general office and booked by Western for the same year. Explain any differences between the level of the expenses each year.

23. Refer to Western's response to Item 38 of the Commission's February 9, 1995 Order. Based upon the numbers provided in the per book column, it appears Western saved \$277,457 by basing its booked taxes on a consolidated return. However, as pro forma income taxes are computed on a stand alone basis, the savings Western achieves from consolidation are not being shared with its ratepayers. Explain why Western did not make an adjustment to recognize these savings.

24. Refer to Western's response to Item 222 of the AG's March 24, 1995 Corrected Request for Information. Provide the following:

a. A description of the 1994 and 1993 charges on Row 3 of the table provided in the response.

b. An analysis of the cost of General Liability for the past 5 calendar years.

c. Discuss how long Western's general liability costs can be expected to be elevated as a result of the Bowling Green incident referenced in Footnote 2.

25. Provide a breakdown of the costs incurred to date for the Bowling Green incident referenced in Footnote 2 of Western's response to Item 222 of the AG's Corrected Request for Information filed on March 24, 1995. Include with this response the estimated impact of any recent court decisions related to this accident.

26. Refer to Western's response to Item 300 of the AG's Corrected Request for Information filed on March 24, 1995. Explain why Western's test-year rental expense increased by approximately 33 percent over the prior year.

27. Refer to Western's response to Item 332 of the AG's Corrected Request for Information filed on March 24, 1995. Describe Technimetrics. Include with this response a discussion of the benefits derived from subscribing to Technimetrics.

28. Refer to Western's response to Item 334 of the of AG's Corrected Request for Information filed on March 24, 1995. Explain the increase in uncollectible accounts written off by Western. Discuss the steps Western has taken to control these losses.

29. Refer to Western's response to Item 336 of the AG's Corrected Request for Information filed on March 24, 1995. List

expense amounts for workers' compensation insurance and claims for each year 1991 through 1993 and for the test year. Indicate in which expense accounts these items are recorded.

30. Refer to Western's response to Item 342 of the AG's April 17, 1995 request. Explain why the expenses recorded in Account 916, Demonstrating and Selling Expenses, should be included in the determination of the revenue requirements of the utility.

31. Refer to Western's response to Item 342(b) of the AG's April 17, 1995 request. Explain why the following expenses recorded in Account 926, Employee Welfare/Pensions, should be included in the determination of the revenue requirements of the utility:

- a. Coffee Room, \$13,461.56.
- b. Awards Dinner, \$11,354.91
- c. Employee Activities, \$17,457.78.
- d. Magazines, \$2,933.10.
- e. Performance Plan, \$52,400.

32. Refer to Western's response to Item 380(f) of the AG's April 17, 1995 request. Provide the cost incurred during the test year by the Governmental Affairs Department. To the extent possible, provide a breakdown of this total cost into the objective categories for this department as listed in the response.

33. Refer to Western's response to Item 397(c) of the AG's April 17, 1995 request. Provide a breakdown of the \$237,000 in Deferred Charges and Other Assets and explain why this amount should be included in the prepayments included in the rate base

calculation as shown in Schedule 7 of Exhibit 25 of the application.

34. Refer to the response to Item 68 of the Commission's March 23, 1995 Order.

a. The company states that the expensed portion of other postretirement employee benefits ("OPEBs") for the test year was \$1,116,084. Is this amount included in account 926, a breakdown of which was provided in response to Item 71 of the same Order? If yes, further break down account 926 to show the elements of the \$1,116,084. If no, state in what account the expensed portion of OPEBs is included.

b. How much of the total OPEB cost of \$1,535,800 was allocated from the Atmos General office?

c. The company states that the medical trend rate for the test year was 12 percent. Reconcile this figure with the 10.5 percent trend rate stated at page 14 of the Analysis of Postretirement Welfare Benefits filed in response to Item 48 of the February 9, 1995 Order and page 52 of Atmos's Form 10-k filed in response to Item 42 of the company's application.

35. Refer to the response to Item 70 of the Commission's March 23, 1995 Order.

a. Explain what is meant by internal funding.

b. Is the company currently internally funding OPEBs? If yes, what percentage is it funding? If not, when does it anticipate doing so and at what level?

36. Refer to Item 72 of the Commission's March 23, 1995 Order. Provide the effect that OPEBs have on Western's deferred taxes for the test year.

37. Refer to Item 73 of the Commission's March 23, 1995 Order. Explain fully what the percentages for Western represent for 1992, 1993 and 1994. Provide the workpapers used to calculate these percentages.

38. The response to Item 74 of the Commission's March 23, 1995 Order states that Western does not have the in-house expertise to recalculate its OPEB expense and transition obligation using an 8 percent medical trend rate in Year 1 and decreasing to 5 percent by Year 7. Provide the effect a 1 percent decrease in the trend rate would have on the test-year expense and transition obligation.

39. Provide the amount of administrative costs included in the \$1,535,800 OPEB expense.

a. Provide a complete explanation for any administrative costs.

b. Provide the name of the recipient of the administrative costs.

40. Refer to the response to Item 379 of the AG's First Request for Information.

a. Provide the dollar amount of dental benefits included in the \$1,535,800 OPEB expense for the test year.

b. The company states, "any future avoided costs related to this change is likely to be offset by other cost increases." Identify these "other cost increases."

41. Refer to the responses to Items 4 and 41 of the Commission's March 23, 1995 Order, in order to clarify Western's proposal to recover Working Gas Inventory Carrying Costs ("WGICC") through the Gas Cost Adjustment ("GCA").

a. Western's proposal does not result in removing working gas in storage from rate base. Does the proposed treatment of WGICC affect the amount of Western's proposed revenue requirement?

b. The \$1.6 million represents the proposed level of WGICC grossed-up for income taxes, i.e., a return component of Western's proposed revenue requirement. For rate calculations, is it correct that this amount would still be included in Western's base rates, but as part of the Base Cost of Gas ("BCOG") rather than the "simple margin," or non-gas part of the base rates?

c. Is the proposed WGICC, grossed-up for taxes to \$1.6 million, included in the BCOG to establish a base level against which the actual WGICC amount will be compared monthly so that the resulting differences can be recovered through the GCA?

d. Item 4, Part (b) of the response is a breakdown of Western's proposed gas costs reflecting the proposed changes to rates and the GCA. Provide a similar breakdown which reflects all proposed rate and GCA changes except for the \$1.6 million increase in gas costs due to the WGICC recovery proposal.

e. Provide a gas cost worksheet, in the same format as sheet 3 of the workpapers to the class cost-of-service study, that

shows the proposed gas cost recovery without the \$1.6 million increase for the WGICC.

42. Refer to the summary of revenue at present rates (on Schedule 2 of Tab No. 25 of the application) and the response to Item 5 of the first information request of Shirley Manley.

a. In a format similar to that used for the summary of revenue at present rates provide a summary of revenue at proposed rates.

b. Using the amounts reported as "current rate net of gas cost" and "proposed rate net of gas cost" in the response to Shirley Manley and the adjusted Mcf volumes in the summary of revenue at present rates provide a schedule of current revenues net of gas costs and proposed revenues net of gas costs. Provide this in the same general format as in the summary of revenue at present rates.

43. Refer to the response to Item 6 of the Commission's March 23, 1995 Order.

a. Explain how the objectives of moving toward cost-based rates and maintaining rate continuity were considered by Western in the development of its proposed rates.

b. Is maintaining continuity between present and proposed rates and among customer classes as important to Western as moving toward cost-based rates?

c. Western's G-1 Rate Schedule includes base charges per meter for residential and non-residential customers. In the interest of moving toward cost-based rates while maintaining rate

continuity, would separate commodity rate charges for residential and non-residential customers, within the same rate schedule, be a viable option for Western? Explain.

44. Refer to the response to Item 7 of the Commission's March 23, 1995 Order.

a. Growth in the number of customers and declining consumption per customer may be offsetting trends, as stated in the response. Explain the rationale for ignoring the offsetting nature of these trends and only recognizing the fixed costs resulting from customer growth by making adjustments which reflect year-end plant in service.

b. Calculate a customer growth adjustment, to revenues and expenses, for the residential and commercial classes based on Western's test year-end customer levels.

45. Refer to the response to Item 8 of the Commission's March 23, 1995 Order.

a. What consideration has Western given to establishing separate base charges on its G-1 Rate Schedule for commercial and industrial customers? Describe the advantages and disadvantages to Western of such separate base charges.

b. What consideration has Western given to establishing separate base charges, within the same rate schedule, for the large and small interruptible customer groups. Describe the advantages and disadvantages to Western of such separate base charges.

46. Refer to the response to Item 9 of the Commission's March 23, 1995 Order.

a. Since Western's proposed payroll adjustment is based on annualized salaries as of January 1, 1995, explain the rationale for including budgeted 1995 salary increases in the labor cost component of the proposed service charges.

b. Part (c) of that request asked for the benefits and payroll taxes percentages for the test year and preceding three calendar years. The response includes four years, identified as 1991, 1992, 1993, and 1994. Are these all calendar years? Is 1994 the test year ended September 30, 1994? Are these fiscal years? Clarify the periods included in the response.

c. Part (c) of the response shows percentages of 40 and 50 for 1993 and 1994, respectively. Was the simple average of these numbers the basis for the 45 percent "average" used in the cost calculation?

d. The response to Part (c) of the request shows that "agreed upon employer costs," which increased from \$1.3 million in 1991 to \$2.5 million in 1994, is the cost category most responsible for the increasing level of payroll taxes and benefits. Describe and explain, in detail, the reasons for the increasing level of "agreed upon employer costs."

e. Part (d) of the response refers to the level of costs reflected in the 25 percent for overheads. Provide an analysis of these costs, for the period(s) used by Western in deriving the 25 percent, which shows how the percentage was derived.

47. The response to Item 18(c) of the Commission's March 23, 1995 Order does not adequately address the request in Item 18. WGICC incurred by a pipeline supplier and passed on to Western via its wholesale gas purchases are not the costs that Western is now proposing to recover through its GCA. Explain how WGICC, incurred at the distribution level, can properly be classified as gas costs recoverable through Western's GCA.

48. Recalculate RW Schedules 5, 6, and 10 to show cost of equity based on the most current information available.

49. Recalculate the response to Item 94 of the Commission's March 23, 1995 Order based on the most current information available.

50. Refer to the response to Item 81 of the Commission's March 23, 1995 Order. What is the daily average balance for notes payable?

51. Calculate the short-term debt balance for the 13 months ended January 31, 1995 using daily average balances.

52. Why did Western recognize the \$40,000,000 debt issuance in calculating its long-term debt cost rate and relative portions of short-term and long-term debt, but not in calculating its total capital structure?

53. Why did Western use 13 month averages of debt and equity instead of end of test-year balances in calculating its capital structure?

54. Compare Atmos's short-term interest cost to the prime rate for each month since the test year.

55. Refer to the response to Item 2 of the Commission's February 9, 1995 Order. Is Western's proposed use of 1.30 percent short-term debt in its capital structure representative of short-term debts historical proportion in Western's capital structure?


56. Refer to the response to Item 388 of the continued First Request for Information of the Attorney General. Does the error pointed out in the note to part (A) change Western's proposed capital structure? If so, provide a corrected proposal.

57. Explain Western's higher gas cost relative to some other Atmos operating divisions.

58. Refer to the response to Item 19 of the Commission's March 23, 1995 Order. Which customers will pay the \$30,023 in non-commodity costs no longer paid by the hypothetical HLF customer?

Done at Frankfort, Kentucky, this 8th day of May, 1995.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director